



# INTERNAL AUDIT REPORT



Source: Port of Seattle

## Operational Audit - Capital Shilshole Bay Marina Customer Facilities Project

November 2017 – December 2019

Issue Date: December 9, 2019  
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INTERNAL AUDIT

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## Executive Summary

Internal Audit (IA) completed an audit of the Shilshole Bay Customer Facilities Project (Project) for the period November 2017 through December 2019. The audit was performed to assess the quality of the Port's monitoring of the Project to assure it is meeting project management standards in an efficient and effective manner.

The engineering firm, Tetra Tech (TT) estimated the value of the project at \$8.1 million in 2018. However, the lowest bid received was approximately 25% higher than the engineer's estimate. TT, together with Port Management, met with the lowest bidder to determine why there was a discrepancy between the engineer's estimate and the bids.

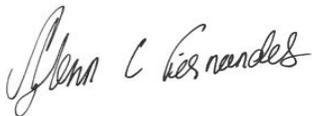
Internal Audit met with TT to identify factors that contributed to bids coming in higher than the original estimate. TT indicated that they expected the Project to go out for bid in early spring when construction bids are historically lower. However, due to the complexity of the Project and multiple Port requested design scope changes, the Project did not go out for bid until late the second quarter. The difference in timing may have resulted in an increase of approximately 5%. TT also indicated that the bidders had previous experience performing work at the Port, and their bids reflected a higher construction cost per square foot compared to the market rates in the region that TT used in its estimate.

TT also explained that it worked with Port Management and obtained the schedule of values from the lowest original bidder, Western Ventures. TT utilized Western Venture's schedule of values in its revised estimate of \$10.8 million that went out to bid in 2019. Western Ventures was ultimately awarded the contract.

In general, Port management's monitoring of the Project generally aligned with industry standards. However, our audit identified an opportunity where internal controls could be enhanced or developed. This opportunity is listed below and is discussed in more detail beginning on page six of this report.

1. (Medium) An opportunity exists to strengthen internal controls by requesting that Tetra Tech (TT) provide individual names on invoices. This would provide the appropriate detail for the Port to assure that individuals being billed for services performed, have the appropriate experience, fall into the appropriate job category, and are billed at the correctly negotiated rate.

We also noted two opportunities to improve processes, that we communicated to Port management via a management letter.



Glenn Fernandes, CPA  
Director, Internal Audit

### Responsible Management Team

Stephanie Jones Stebbins, Managing Director, Maritime  
Anne Porter, Director, Maritime  
Nora Huey, Director, CPO

## **Background**

The Project consists of the construction of three new buildings which includes, two large, multi-use buildings (restroom, shower and laundry) located in the south and central areas of the Marina, plus a smaller restroom/shower only building at the north end of the Marina. As part of the project, existing buildings M4, M5, and M6 will be demolished. In addition, a significant portion of the parking lot will be paved.

The South and Central buildings will be approximately 2,700 square feet each and include separate ADA accessible men, women, and family unisex restrooms with shower facilities. Additionally, these buildings will incorporate tenant laundry areas. The North building will be approximately 700 square feet and include three individual all-gender restrooms and three shower facilities. Although consolidated into fewer buildings, the new facilities will increase the number of showers over the existing configuration, and more than double the current laundry capacity.

The design incorporates sustainable features including, radiant heated floors, water saving fixtures, onsite storm water management bioswales, and rooftop panel arrays which are estimated to offset 70% of the restrooms' electrical use. Heat pumps are expected to handle over 70% of the buildings' heating and cooling needs without requiring outside fossil fuels.

The Project was originally scheduled to begin construction in 2018. However, the lowest bid received was approximately 25% higher than the engineer's estimate. To understand costs, Port staff met with the lowest bidder. Port management indicated that the primary difference between the estimate and bids primarily reflected the region's current construction market that was not reflected in the estimate. Port staff looked at alternatives that would deliver maximum customer-service improvement, but better align the Project scope and budget. The alternatives were also weighed against feedback from moorage and business tenants collected during individual and public engagement meetings.

In February 2019, Port management presented its results to the Port Commission and recommended an option that reduced the project scope and increased the construction authorization by \$2.9 million. This approach resulted in a total project estimate of \$15.0 million which included a 15% construction contingency and made use of the current design and permits. After the Project went out for re-bid, Western Ventures Construction was awarded the contract in July 2019 at a total construction cost of \$10.4 million.

## **Audit Scope and Methodology**

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was November 2017 through December 2019 and included the following procedures:

### Invoice Review Process / Approved Consultant Personnel

- Assessed the Port project team's process was adequate to assure invoices were accurate and properly supported.
- Selected the five largest invoices, accounting for 45 percent of total consultant costs. Performed testing on correct amount, invoice accuracy, properly supported, and whether consultant rates and names agreed to the Level of Effort and Fee Schedule.
- Reviewed contract language and compared to the Consultant's proposal.

### Bid Withdraw Request

- Assessed whether the Project team's process was adequate to assure the bid withdraw request was accurate and reasonable, and that the Team complied with the CPO Procedures Manual.
- Reviewed the letter submitted by the bidder for the bid withdrawal request and Port's acceptance letter.
- Obtained and reviewed documentation to support the bidder's reasoning to withdraw its bid.

### Project Scope Changes and Cost Escalation

- Obtained an understanding of the history of the Project through management inquiry and the review of documentation.
- Reviewed the timeline from Project concept, including scope changes, resulting in design and construction cost escalations.
- Reviewed steps taken by Port management between the initial bid and re-bid, including meetings held between the Port and construction firms to identify reasons why initial bid proposals exceeded the engineer's estimate.

## Schedule of Findings and Recommendations

### 1) Rating: Medium

**An opportunity exists to strengthen internal controls by requesting that Tetra Tech (TT) provide individual names on invoices. This would provide the appropriate detail for the Port to assure that individuals being billed for services performed, have the appropriate experience, fall into the appropriate job category, and are billed at the correctly negotiated rate.**

We performed a detailed review of consultant and subconsultant invoices for the largest five monthly pay requests with a total amount of \$493,000. These pay applications equated to 45 percent of the total amount the Port paid to TT. We noted that, in general, the Seaport Project team had a detailed review process of invoices. For example, we saw an instance where the reviewer disallowed an invoice because it was a duplicate from a previously submitted pay request. We also noted an instance where the reviewer disallowed a specific purchase because it was not directly related to the Project. However, we noted the following:

- The Level of Effort (LOE) included personnel names for TT and four out of the five subconsultants, although all subconsultants had names on the negotiated rate sheets maintained by CPO. TT and two of the subconsultants, who had approved personnel names on the LOE, did not include names on their invoices.
- Invoices that did include names were not compared to the approved personnel on the LOE or negotiated rate sheet.

Consultant personnel were negotiated, reviewed and authorized to work on the project by the Central Procurement Office (CPO). CPO created an Approved Personnel List through a Level of Effort document that was included as an attachment to the Agreement. Section XIII of the Agreement states, in part, "Consultant will ensure that individuals who are specifically identified in this Agreement shall perform the work assigned..." Additionally, the Agreement states, "Assigned individuals shall remain assigned until completion of services. The Consultant may request that a particular individual be replaced with a person of like skill and experience and, if agreed by the Port." The Agreement also states that a SD modification should occur when, "The work of the SD requires additional time, scope, and compensation; and /or personnel are added to or deleted from the SD" (Section VI 5(D)).

The Service Agreement (Agreement) between the Port and TT (Section VI(A) and Section III(B)) allows for service directives to be issued on a lump sum or on a time and expense basis. Service directives for this project were issued on a time and expense basis. Our work determined that there was an opportunity to strengthen existing controls.

#### **Recommendation:**

1. Port management should request that TT provide individual names on invoices so that the Port can monitor which consultants are working on the Project. Individual names can be compared to the LOE, and if there are names that are not in line with the LOE, invoice reviewers have the ability to work with the Rate Negotiations Team to assure the Port is billed a fair and reasonable rate.

#### **Management Response/Action Plan:**

Port Management appreciates Internal Audits' review of our existing contract management of the Tetra Tech service agreement. We appreciate the feedback both in the Management letter and in the Audit report. We appreciate learning our review of invoices incorporates a detailed review process.

## Shilshole Bay Marina Customer Facilities Project

We are carefully weighing and considering how to implement recommended measures long term that both provide sufficient controls and move our contracts forward in a timely and responsible manner. We want to be careful that as we implement changes they work not only for this particular project, but also move us towards long term practices. As we evaluate whether we request names, it is also important to be clear what practices we intend to implement once we have those individual names. That is currently undefined and management feels it is important to define prior to asking for information that is not currently requested.

For this contract, we identified one specific position which was important and specified that individual in a certain key position. Aside from that specific position, each service directive is managed by tasks with job classifications versus identifying individual(s) names conducting the work. Currently the only individual specifically identified is the Project Manager. The Port will ensure that this individual is identified by name.

**DUE DATE: 6/30/2020**

## Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

<b>Rating</b>	<b>Financial Stewardship</b>	<b>Internal Controls</b>	<b>Compliance</b>	<b>Public</b>	<b>Commission/ Management</b>
<b>High</b>	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
<b>Medium</b>	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
<b>Low</b>	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention